

Message Text

UNCLASSIFIED

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 L-03 H-02 PA-02 PRS-01 /109 W
-----094364 050918Z /15

R 042209Z AUG 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 4347
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TOKYO
AMCONSUL MONTREAL
ALL OTHER AMCONSULS IN CANADA (POUCH)

UNCLAS OTTAWA 07056

USOECD ALSO FOR AMEMBASSY PARIS

DEPT PASS TREASURY, FRB, CEA

E.O. 11652:N/A
TAGS: EFIN, CA
SUBJECT: CANADIAN DOLLAR SAGS; RESERVES DROP -- A LITTLE

REF: OTTAWA 6887

1. SUMMARY. THE CANADIAN DOLLAR HAS CONTINUED TO SLIDE SINCE THE END OF JULY, DIPPING BRIEFLY BELOW 93 U.S. CENTS. DESPITE WEAKNESS AND SOME EX MARKET VOLATILITY IN JULY, RESERVES DROPPED ONLY DOLS 88 MILLION, INDICATING RELATIVELY LITTLE INTERVENTION AND "CLEAN" FLOATING. END SUMMARY.

2. THE CANADIAN DOLLAR HAS CONTINUED THE SLIDE WHICH BEGAN LAST WEEK. IT DIPPED BRIEFLY BELOW 93 U.S. CENTS ON AUGUST UNCLASSIFIED

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2, CLOSING AT U.S. DOLS .9314, MORE THAN ONE PERCENT BELOW ITS LEVEL DN JULY 25. WHILE THERE HAVE BEEN FEW REAL DOMESTIC ECONOMIC DEVELOPMENTS TO ACCOUNT FOR SUCH DETERIORATION, A NUMBER OF NEWS ITEMS HAVE HIGHLIGHTED THE CURRENT WEAK POINTS IN THE CANADIAN ECONOMY. A RECENT CASE IN POINT WAS THE WALL STREET JOURNAL EDITORIAL AUGUST 3. SOME ANALYSTS HAVE ALSO COMMENTED THAT GIVEN THIS BEARISH SENTIMENT AND

THE CLOSE ASSOCIATION OF THE CANADIAN AND U.S. DOLLARS IN FOREIGN MARKETS, ANY WEAKNESS IN THE U.S. DOLLAR IS APT TO BE TRANSLATED INTO EVEN GREATER WEAKNESS FOR ITS CANADIAN SISTER CURRENCY. ANOTHER FACTOR MAY HAVE BEEN THE INCREASE DURING THE WEEK ENDING JULY 29 IN THE U.S. FEDERAL FUNDS RATE - OFTEN TAKEN AS A SIGNAL FOR HIGHER U.S. RATES WHICH WOULD REDUCE FURTHER RATE DIFFERENTIALS WITH CANADA. INTEREST RATE SPREADS HAVE ALREADY NARROWED CONSIDERABLY OVER THE PAST YEAR, CONTRIBUTING TO DOWNWARD PRESSURE ON THE CANADIAN DOLLAR. CANADIAN 90 DAY TREASURY BILLS ARE NOW ONLY 1.72 PERCENTAGE POINTS HIGHER THAN THEIR U.S. COUNTERPART COMPARED TO 3.92 PERCENTAGE POINTS A YEAR AGO, WHILE THE SPREAD ON TERM DEPOSITS PAID BY BANKS HAS NARROWED TO 1.80 PERCENTAGE POINTS FROM 4.20 TWELVE MONTHS AGO.

3. THE CANADIAN DOLLAR FLUCTUATED DOWNWARD DURING MOST OF JULY BEFORE THE SUDDEN DROP JULY 26 (SEE REFTEL). THE DAILY AVERAGE FOR THE MONTH WAS U.S. DOLS .9421 (1.0614 CANADIAN DOLLARS TO THE U.S. DOLLAR), DOWN FROM A DAILY AVERAGE OF U.S. DOLS .9454 IN JUNE.

4. INTERVENTION IN FOREX MARKETS BY THE BANK OF CANADA DURING JULY WAS APPARENTLY QUITE LIGHT. INTERNATIONAL RESERVES DROPPED ON U.S. DOLS 88.1 MILLION TO U.S. DOLS 5,009.0 MILLION. THE CHANGE IN RESERVES IN JULY INCLUDED AN INCREASE OF U.S. DOLS 11.4 MILLION IN SDR-DENOMINATED UNCLASSIFIED

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ASSETS, REFLECTING APPRECIATION ON THE U.S. DOLLAR VALUE OF THE SDR. ENDERS

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Message Attributes

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Sent Date: 04-Aug-1977 12:00:00 am
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Disposition Approved on Date:
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